DANA POINT BOATERS ASSOCIATION PROPOSAL TO REVISE
THE DANA POINT HARBOR REVITALIZATION PLAN

Executive Summary

The existing Dana Point Harbor Revitalization Plan was developed some years ago during times of prosperity and readily available financing for most any purpose. While the Dana Point Boaters Association (DPBA) understands that today the costs for major commercial construction projects are running well below what they were when the estimates for this project were announced some years ago, given the current economic climate it is unlikely a full business case for the current form of this project would be found to be financially viable.

There are compelling reasons why continuing with a status quo project plan is troubling at this time. The current lending environment features a reduced number of sources for debt financing, a reduced amount of funds available and a reduced ability / willingness to lend. Indeed the amount of financing available today from the sources specified within the plan falls far short of even the current cost estimate. Given current economic conditions as well as the actual project design approved by the California Coastal Commission, the income component of a conservative financial business case would have to be reduced from estimates prepared during the previous prosperous economy.

Given even a smaller capital requirement, reduced financing actually available, as well as reduced cash flow available to service debt, it is improbable that the entire status quo implementation agenda, inclusive of land-side and on-water redevelopment, can be affordably executed within a timeframe approaching that originally envisioned.

Most relevant and important from a recreational boating perspective, the status quo implementation agenda calls for completing the entire land side redevelopment project prior to undertaking water side construction. We fear that redevelopment funds will run out and on-water redevelopment objectives will not be achieved.

With these thoughts in mind, DPBA has prepared this proposal for changes in scope, approach and financing including:

- The commercial core revitalization proceeds but perhaps with some reduction in scope
- Complete water side reconfiguration is changed to a systematic replacement of docks over a period of years
- Boaters receive some improved amenities during the commercial core revitalization
- Accounting is modified for separate public visibility of commercial core and water side revitalization funding and expenses
- A long-term operations budget is developed which forecasts minimal increases in slip rental rates.

Situation Assessment

The existing Dana Point Harbor Revitalization Plan was developed conceptually during a period some years ago when planning constraints and assumptions were much different than they are today. Key project scoping and financing decisions occurred during the years from 2004 to 2006 and these were times of economic prosperity that featured “easy money”, readily available to finance residential and commercial development nationwide. Easy money enabled many projects with incomplete and untested value-versus-cost assessments. The Dana Point Harbor Revitalization Project, while clearly worthy in concept, was not the exception.[1] Unfortunately, times have since changed to say the least, and the current economic climate is expected to continue into the foreseeable future.

The existing redevelopment plan features broad scope construction on both the land and water sides - a 53% increase in commercial square footage and a complete teardown and recasting of the existing on-water dock facilities. Given current scope, the best available estimates of the yet to be quantified project costs approach perhaps $300 million, including the hotel development which we understand is highly unlikely. The financing plan includes private financing for the majority of land side construction and DBW loans plus larger reserves built from slip fee increases to finance the water side construction. The trouble is, many general economic assumptions are no longer valid and introduce new constraints upon detailed planning. DPBA believes:

– Private financing of commercial development is now extremely difficult and expensive. Such financing may not even be available given the currently available business case.

– Partial DBW financing of water side reconstruction is highly unlikely, in whole and perhaps even in part. This is due to state economic conditions and associated budget constraints.

– Currently over 1400 of a total of 2409 of recreational boat slips within the harbor are less than 30’, the slip size range defined loosely as “affordable” by the California Coastal Commission and others. As many as 150 slips of these slips have been vacant for the past two years. The Coastal Commission disapproved the original plan to significantly decrease the number of these smaller slips, a reduction of about 1100 slips, in favor of larger slips with expectation of zero-vacancy and a higher per linear foot rental rate. From a financial planning standpoint, keeping these smaller slips predicts less revenue within the finance plan.

– Poor economic conditions for the foreseeable future, translated into lost purchasing power for the young and many others, argue against a financing plan featuring significant slip fee increases. Slip fee increases must, of necessity, be contained or vacancy rates will increase. (Exception: a few hundred of 2409 slips in the larger slip sizes which appeal to relatively economically-insulated upper middle class consumers.) This necessity also foretells less revenue to work with than originally thought.

[1] The economic viability of the total project has not been publicly established using more accurate cost estimates, currently sources of available financing and updated estimates of funds available for debt service.

DPBA Recommendations

1. Commercial revitalization is needed and should proceed as rapidly as possible[2]. Core commercial revitalization goals and benefits should be fully protected. However, reductions in commercial scope should be investigated as a real possibility and seriously considered if opportunities are found to exist.

2. A revised commercial core reconstruction financing plan, in part funded by the portion of accumulated Tidelands Trust reserves generated from slip revenue, should be considered. These slip revenue based revenues can then be replenished from expanded commercial core revenues on an accelerated schedule beginning immediately following commercial core reconstruction.

   Note that DPBA believes this is viable only given public support and trust (especially amongst recreational boaters) is earned and can be sustained. The other recommendations contained within this proposal are directed to achieving this goal.

3. The scope of waterside revitalization should be revisited.

   A key learning from many, many public hearings is that recreational boaters like the harbor the way it is today. Boaters welcome improvements but wish to retain the existing character as much as possible. The Coastal Commission directed that the existing slip size mix can be only slightly modified and the total number slips should not be reduced. Therefore a major goal of complete redesign has also been eliminated. Finally, a complete on-water design rework is also a less attractive for financial reasons.

   So instead it now makes sense to identify and focus on providing as many key recreational boating improvements as possible, given retention of the existing dock configuration. Design and permitting costs will be substantially reduced and some planning related costs, those associated with the Coastal Commission approval process for example, will be entirely eliminated.

4. The waterside implementation approach should be shifted from accelerated (as fast as possible) reconstruction of all slips to a systematic replacement of facilities as needed[3].

   Regarding the impact that systematic replacement will have on timing, many (most) of the existing dock infrastructures have remaining useful life. From a needs standpoint, it is therefore not essential to replace all docks during a single construction project. Moving to a staggered, systematic waterside facilities replacement will allow cash flow and replenished reserves to finance some of the work, reducing the risk that insufficient funds will be available for the waterside when needed. *The net impact will be to reduce the contentious conflict which exists today between competing demands for the same, limited reconstruction reserve funds.*

---

[2] Beyond project benefits themselves, there is substantial cost avoidance possible if construction is done during the current depressed economic climate. The project will also provide a badly need boost to the local economy.

[3] An engineering study will likely be necessary to determine the most appropriate dock replacement schedule. Publishing results from a formal study will also minimize a potential boater concern as to currently needed reserves (derived primarily from slip revenue) being misdirected to commercial reconstruction.

A systematic approach features replacement of docks individually. It also assumes increased maintenance to existing docks, on a case-by-case basis, where the opportunity exists to affordably extend useful life while at the same time maintaining the full recreational value necessary to justify the harbor's high slip rental rates.

5. Significant recreational boating improvements should be introduced during/before commercial core reconstruction wherever practical; to help assure public support for what will otherwise be perceived to be a reduced support for recreational boating versus the commercial core.

   The goal here should be to introduce as many targeted recreational boating improvements as possible, as soon as possible. *The significance and timing of these improvements should compare favorably with the commercial core reconstruction timetable.*

6. The new plan must avoid forecasting significant increases in slip rates to assure recreational boating support for the recommended changes in the revitalization plan approach and financing. *Otherwise, boaters will strongly oppose the other recommendations within this proposal.*

7. That said, the slip rates for the harbor should be normalized on a revenue neutral basis to assure that slip rates paid by individual boaters throughout the harbor (both east and west basins) are the same and reflect the actual square footage each standard slip size employs[4]. Today small slip renters pay a disproportionately higher rate per square foot, as do east basin slip renters versus west basin slip renters with the same size slip. While it can be argued what impact slip rate normalization will have on the current small boat slip vacancy rate, the net effect will be to demonstrate fairness and support for affordable boating and thereby to incur favor amongst those who may in turn rent slips in sizes where increased slip occupancy is possible and desirable. Higher small slip occupancy rates translate into increased slip revenue and fund reserves.

8. It is necessary to expand current Fund 108 financial reporting in order to demonstrate to all harbor stakeholders, especially recreational boaters, that revenues are being fairly and appropriately collected to cover costs. It is also necessary to demonstrate that reserve funds are being fairly accumulated and deployed over the long term (with a planning horizon of 15-20 years), even while reserves are being deployed in the near term to complete commercial reconstruction. This reporting will be new for Fund 108 and most likely will require additional ongoing accounting resources to accomplish on the outgoing basis required. However the costs for these additional resources will be more than offset by reconstruction related cost savings and avoidance.

   We emphasize that this additional reporting is essential to the viability of the other recommendations contained within this proposal. Note also that these changes will contribute to the general wellbeing of the harbor through increased transparency that will in turn create new general public support, especially amongst recreational boaters.

   DPBA has specific ideas regarding what changes to make and how they could be accomplished procedurally. We would welcome the opportunity for discussion with appropriate County Finance team

[4] The dimensions of slips vary slightly. Yet today there are standard rates based on the approximate linear footage. The same pricing philosophy is recommended to price slips based on approximate square footage.

members. However, here we would like to focus only upon to two outcomes that we view to be essential:

a. A routinely published demonstration to the general public that the Funds Balance Available (FBA) figure for both recreational boating and non-recreational boating harbor operations is the same (i.e. zero[5]), after contributions to reserves, rather than having one of these two revenue centers with a positive FBA and the other a negative FBA while collectively netting to zero FBA.

b. A routinely published demonstration to the general public that the sources and uses of reserve funds are being discretely and properly collected, deployed and accounted for between the recreational boating and non-recreational boating aspects of harbor operations[6].

The first outcome will address arguments heard for years throughout the recreational boating community that merchants are somehow “not paying their fair share”. The second outcome plays a similar role regarding the perception that reserves accumulated from boaters are somehow being deployed elsewhere and as a consequence, slip rents are (unfairly) higher than they would be otherwise.

Stepping back, the overreaching goal here is to create transparency such that amounts accumulated and withdrawn can vary significantly year to year as harbor management sees fit (for example based upon short term reconstruction funding needs, first more on the land side and later more on the water side), while the general public possesses the informational means to continue to be confident that over the long run that reserve funds are being fairly accumulated and used.

9. Because the Tidelands Trust is a self-sufficient and entirely separate legal entity with a strong financial record, it may be a win-win strategy for the County General Fund to buy bonds issued by the Trust, thereby to reduce / optimize the draw against reserves. In light of an even more cost effective Revitalization project scope, combined with the funding and implementation approach this document describes, this financing alternative seems attractive from perspective of both the General Fund and Fund 108. From a General Fund perspective, such a loan would be well collateralized, quite safe and pay a reasonable return. From a Fund 108 perspective, the cost of funds could be (should be) less that if borrowing was done on the commercial market.

Proposed Next Steps

DPBA has prepared a list of potential recreational boating improvements as well as a financial model which demonstrates the revenue neutral impact of square foot based slip rents. The DPBA proposes to discuss these materials as well as the concepts reflected within the above recommendations with The County and other stakeholders, and to reach a mutually agreeable consensus before going public with our recommendations.

[5] Technically the amount must be less than $240,000 or by law or the surplus is to be surrendered to the State General Fund.

[6] DPBA believes that a more definitive breakdown in the reserve accounts themselves will aid in achieving this outcome.